GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2725
ANSWERED ON:31.08.2007
NATIONAL POLICY ON SUBSIDIES
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Will the Minister of FINANCE be pleased to state:

(a) the main highlights of the report `Central Government subsidies in India`;

(b) whether Union government has finalized the national policy on subsidies;

(c) if so, the details thereof; and

(d) the time by which a final decision is likely to be taken?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) The main highlights of the report `Central Government subsidies in India` are as follows:

1. Three reasons account for the increase in the Central Government subsidies in recent years:

(i) moving the petroleum sector to a transparant system of budgetary subsidies and delay in the announced phasing out of subsidies on PDS kerosene and domestic LPG;
(ii) increase in explicit budgetary subsidies on food and fertilizer; and
(iii) increase in the input costs unaccompanied by any improvement in recovery rates resulting in escalation of implict subsidies on a variety of economic and social services.

2. Subsidy reforms should aim at

(i) reducing their volume relative to revenue receipts;
(ii) limiting these to only Merit categories while eliminating the non-Merit subsidies;
(iii) administering subsidies more directly to the targeted beneficiaries;
(iv) making subsidies transparent by showing them explicity in the budget ; and
(v) avoiding multiple subsidies to serve the same policy objective.

3. Operational ineffficiency in the case of provision of any public good or service leads to higher cost of production and greater subsidies.

4. High costs of service provision and low or negligible recoveries through user charges are the two critical factors leading to high subsidies. Costs need to be reduced, by eliminating producer inefficiencies. Subsidies reforms need to follow a scheme of priorities by focusing on selected sectors, which yield maximum results.

(b),(c) and (d) Government has endeavoured to target subsidies towards the poor and truly needy like small and marginal farmers, farm labour and urban poor and requisite policy measures are taken from time to time in this regard.